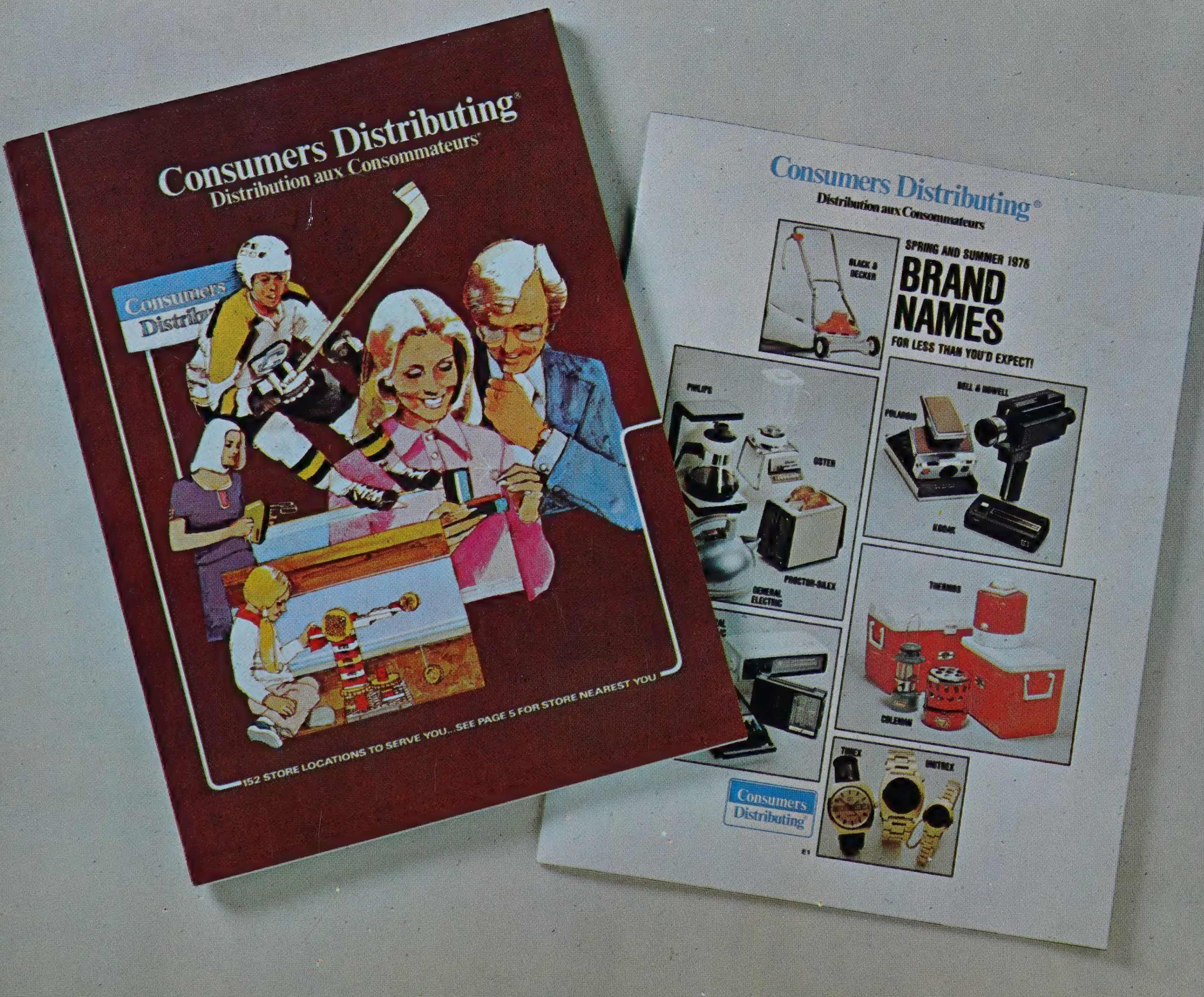
# Consumers Distributing®

# ANNUAL REPORT 1975



## Corporate Directory January 31, 1976

### Directors

JACK STUPP, Chairman of the Board and Chief Executive Officer, Toronto

ALBERT C. PLANT, President and Chief Operating Officer, Toronto

MICHAEL APPLETON, Barrister and Solicitor, Toronto

RICHARD BAIN, Barrister and Solicitor, Toronto

L.S.D. FOGLER, Q.C., Barrister and Solicitor, Toronto

A.J. LATNER, President, Greenwin Construction Company, Toronto

LILLIAN STUPP, Toronto

RAY D. WOLFE, Chairman of the Board and Chief Executive Officer, The Oshawa Group Limited, Toronto

### Officers

JACK STUPP, Chairman and Chief Executive Officer

ALBERT C. PLANT, President and Chief Operating Officer

GEORGE GRAFF, Vice President, Distribution

ROBERT J. MANNING, Vice President, Merchandising and Marketing

PETER M.C. ONIONS, Vice President, Finance and Administration

REGINALD J. ROBERTSON, Vice President, Development

ALAN D. START, Vice President, Sales and Store Operations

PETER M. SULLIVAN, Controller

RICHARD E. ZEMP, Treasurer

L.S.D. FOGLER, Q.C., Secretary

## Contents

# Financial Highlights

| | 13 MONTHS ENDED JAN. 31/76 | 12 MONTHS* ENDED JAN. 31/76 | 12 MONTHS* ENDED JAN. 31/75 | 1974 |
|---|---|---|---|---|
| **Sales** | | | | |
| Ontario | **$ 85,618,000** | **$ 82,378,000** | $ 74,693,000 | $ 74,448,000 |
| National | **83,041,000** | **79,787,000** | 65,047,000 | 63,912,000 |
| | **168,659,000** | **162,165,000** | 139,740,000 | 138,360,000 |
| **Net profit** | **$ 144,000** | **$ 493,000** | $ 1,617,000 | $ 1,905,000 |
| **Earnings per share** | **3¢** | **11¢** | 36¢ | 43¢ |
| **Tax-paid dividends per share** | **3¢** | **3¢** | 11.5¢ | 11.5¢ |
| **Shares outstanding**—average | **4,456,196** | **4,456,196** | 4,456,196 | 4,456,196 |
| **Working capital** | **$ 8,421,000** | **$ 8,421,000** | $ 7,763,000 | $ 7,838,000 |
| **Showrooms** | | | | |
| Ontario | **83** | **83** | 82 | 82 |
| National | **72** | **72** | 65 | 65 |
| | **155** | **155** | 147 | 147 |

*Unaudited

# Five Year Comparative Summary ($000's)

| | 12 MOS.* ENDED JAN. 31/76 | 12 MOS.* ENDED JAN. 31/75 | 1974 | 1973 | 1972 | 1971 |
|---|---|---|---|---|---|---|
| **Sales** | | | | | | |
| Ontario | **$ 82,378** | **$ 74,693** | $ 74,448 | $ 62,516 | $ 55,785 | $ 42,918 |
| National | **79,787** | **65,047** | 63,912 | 37,551 | 17,704 | 5,228 |
| | **162,165** | **139,740** | 138,360 | 100,067 | 73,489 | 48,146 |
| Share of net earnings of Consumers 'National' | **57** | **449** | 518 | 701 | 451 | 165 |
| Earnings before taxes | **872** | **3,024** | 3,539 | 6,302 | 5,751 | 4,276 |
| Income taxes | **379** | **1,407** | 1,634 | 2,845 | 2,550 | 2,055 |
| Net income | **493** | **1,617** | 1,905 | 3,456 | 3,201 | 2,222 |
| Tax-paid dividends | **134** | **512** | 512 | 445 | 430 | — |
| Working capital | **$ 8,421** | **$ 7,763** | $ 7,838 | $ 9,118 | $ 8,445 | $ 6,939 |
| Total assets | **43,656** | **45,866** | 48,417 | 32,801 | 27,601 | 19,955 |
| Shareholders' equity | **16,988** | **16,259** | 16,601 | 15,299 | 12,337 | 6,693 |
| Shares outstanding | | | | | | |
| actual** | **4,456,196** | **4,456,196** | 4,456,196 | 4,456,196 | 4,453,056 | 4,060,250 |
| average** | **4,456,196** | **4,456,196** | 4,456,196 | 4,454,747 | 4,260,088 | 4,059,266 |
| Earnings per share** | **11¢** | **36¢** | 43¢ | 78¢ | 75¢ | 55¢ |
| Tax-paid dividends per share** | **3¢** | **11.5** | 11.5¢ | 10¢ | 10¢ | — |
| Showrooms | | | | | | |
| Ontario | **83** | **82** | 82 | 69 | 56 | 49 |
| National | **72** | **65** | 65 | 45 | 26 | 9 |
| | **155** | **147** | 147 | 114 | 82 | 58 |

*Unaudited
**Share data is adjusted for the two-for-one stock split of August 14, 1972

*Jack Stupp (left), Chairman and Albert C. Plant, President*

## To our Shareholders

We are pleased to report that your company has remained profitable while experiencing the most difficult year in its history. Management faced many problems which had accumulated after eight years of expansion. We can now look ahead to future growth and prosperity with a good measure of confidence based on the actions taken during the past year.

Our report this year covers the 13-month period ended January 31, 1976. Because future years will be typical 12-month periods ending on the Saturday closest to January 31, we have provided some comparisons of 1974 and 1975 on this basis.

Sales for the 12-months ended January 31, 1976 for the combined companies rose to $162,200,000, up 17 percent from 1974. Based on the results of our showrooms during the 12-months, we are pleased to report that "sales-per-store" on a weighted average basis rose to $1,060,000, a return to previous levels of store volume.

Profits, however, were minimal. Necessary actions were taken to improve liquidity for example by reducing inventories. While the results of these actions were successful, smaller profit margins on the cost of goods sold produced earnings of $144,000 or three cents per share. These earnings increased to $544,000 or 12 cents per share as a result of the sale of the company's 50 percent interest in Consumers Distributing "U.S." to the May Department Stores Company, our partners in this joint venture from August 1972 until May 1975.

The 13-months results include the figures for two Januaries, normally the weakest month of the year for most retailers. A more accurate comparison with the previous year will show that for the 12-months ended January 31, 1976, profits were $493,000 or 11 cents per share before the extraordinary gain, compared to $1,617,000 or 36 cents per share for the 12-month period ended January 31, 1975.

The rapid growth of your company over the past few years, however, has dramatically increased the complexity of the business. The supervision demanded by this vast network of stores; the planning needed to ensure that adequate supplies of high quality products reach all stores; and the data processing systems to report on the diverse details of activity; all require sophisticated analysis and an organized approach, in order to attain the company goals.

To ensure that these, and many other elements of this large enterprise are properly handled, we have taken three significant steps:

1. We have attracted to the company a number of senior executives who have a depth of experience in managing large and complex retail organizations.
2. We have instituted a "business planning process" whereby the entire management of the company can participate in long-range planning as well as operational planning.
3. We have introduced a control process which reports results at all levels of management against targetted results set by individuals who are accountable for specific segments of the business.

Your company can be classified as a "threshold" company. Consumers Distributing is the leader in its field but it is on the threshold typical of a company which has grown too fast; it is passing through its purely entrepreneurial stage to a position of dominance in its market.

It is rapidly assuming leadership in providing unbeatable value to the consumer in such commodities as portable appliances, home entertainment merchandise, toys and sporting goods, infant's and children's furniture and equipment, and photographic equipment. We believe that Consumers Distributing will maintain its leadership position in this highly specialized industry because it now enjoys the combined strengths of proven entrepreneurial ability and an efficiently systematized approach to management.

During the 13-months ended January 31, 1976, the company carried out a modest expansion program and ended the period with 155 showrooms. By the end of the fiscal year, four showrooms were closed in keeping with management's plan to increase sales by maximizing the productivity of existing units. The program for 1976 calls for opening approximately 10 new showrooms.

Since October 14, 1975, your company has been subject to the Federal Anti-inflation Guidelines. We have interpreted the regulations and complied with them as they have been introduced. We support the spirit and intent of these guidelines because they represent a concerted effort to bring some degree of moderation to our present inflationary spiral. The marketing concept of Consumers has always been anti-inflationary. Our operating costs are maintained at minimum levels and the resultant savings have been passed on to the consumer in the form of lower prices the year round.

We have recognized that growing pains demanded a significant change in the way we conduct our affairs and today, we are encouraged by the early indications that our management process has been greatly enhanced and a climate established for major improvements in productivity and profitability in the future.

On behalf of the Board of Directors we thank our officers and staff, and our suppliers, for their support during a most difficult year.

| | |
|---|---|
| Jack Stupp<br>Chairman of the Board and<br>Chief Executive Officer | Albert C. Plant<br>President and<br>Chief Operating Officer |

Toronto
May 28, 1976

## Consolidated Statement of Income and Retained Earnings

| | **Thirteen months ended January 31, 1976** | Twelve months ended December 31, 1974 |
|---|---|---|
| Income: | | |
| Sales | **$85,617,694** | $74,447,947 |
| Share of net earnings (loss) of Consumers Distributing Company (National) Limited (Note 1 (b)) | **(34,740)** | 517,794 |
| | **85,582,954** | 74,965,741 |
| Costs and expenses: | | |
| Cost of sales and operating expenses (Note 5) | **82,702,191** | 69,155,547 |
| Amortization of financing expenses | **13,000** | 12,000 |
| Interest expense | **1,622,502** | 1,599,573 |
| Depreciation and amortization of equipment and leasehold improvements | **980,885** | 659,507 |
| | **85,318,578** | 71,426,627 |
| Income before income taxes and extraordinary gain | **264,376** | 3,539,114 |
| Income taxes | **119,904** | 1,634,281 |
| Income before extraordinary gain | **144,472** | 1,904,833 |
| Gain on disposition of investment in Consumers Distributing Company (U.S.), net of related income taxes of $235,894 | **399,945** | — |
| Net income | **544,417** | 1,904,833 |
| Retained earnings, beginning of period | **12,826,236** | 11,524,474 |
| | **13,370,653** | 13,429,307 |
| Tax paid to create tax-paid undistributed surplus on hand | **(23,592)** | (90,635) |
| Tax-paid dividends | **(133,686)** | (512,436) |
| Retained earnings, end of period | **$13,213,375** | $12,826,236 |
| Earnings per share before extraordinary gain | **$ .03** | $ .43 |
| Earnings per share | **$ .12** | $ .43 |

See accompanying notes

## Consolidated Balance Sheet

| Assets | January 31, 1976 | December 31, 1974 |
|---|---|---|
| Current: | | |
| Accounts receivable | **$ 1,131,640** | $ 1,169,692 |
| Current portion of amount due from The May Department Stores Company (Note 3) | **160,336** | — |
| Income taxes refundable | **8,361** | 448,818 |
| Due from Consumers Distributing Company (National) Limited | **6,148,899** | 6,224,784 |
| Inventory | **24,532,733** | 29,195,085 |
| Prepaid expenses and sundry assets | **1,787,507** | 1,405,564 |
| Total current assets | **33,769,476** | 38,443,943 |
| Due from The May Department Stores Company, less current portion (Note 3) | **627,814** | — |
| Investment in Consumers Distributing Company (National) Limited | **1,800,529** | 1,835,269 |
| Investment in Consumers Distributing Company (U.S.) | **—** | 124,876 |
| Equipment and leasehold improvements (Note 4) | **6,890,946** | 7,193,920 |
| Other assets (Note 5) | **567,220** | 818,909 |
| | **$43,655,985** | $48,416,917 |

| Liabilities | | |
|---|---|---|
| Current: | | |
| Bank indebtedness (Note 6) | **$ 4,456,953** | $12,432,858 |
| Accounts payable and accrued liabilities | **20,108,198** | 17,518,490 |
| Dividends payable | **—** | 133,686 |
| Deferred income taxes | **783,731** | 520,603 |
| Total current liabilities | **25,348,882** | 30,605,637 |
| Deferred income taxes | **1,318,974** | 1,210,290 |

| Shareholders' Equity | | |
|---|---|---|
| Capital Stock (Note 7): | | |
| Authorized: | | |
| 12,000,000 Common shares, without par value | | |
| Issued: | | |
| 4,456,196 Common shares | **3,774,754** | 3,774,754 |
| Retained earnings | **13,213,375** | 12,826,236 |
| | **16,988,129** | 16,600,990 |
| | **$43,655,985** | $48,416,917 |

See accompanying notes

On behalf of the Board: JACK STUPP Director
ALBERT C. PLANT Director

## Consolidated Statement of Changes in Financial Position

| | Thirteen months ended January 31, 1976 | Twelve months ended December 31, 1974 |
|---|---|---|
| Financial resources were provided by: | | |
| Income before extraordinary gain | **$ 144,472** | $1,904,833 |
| Add (deduct) charges (credits) to income not requiring a current outlay (receipt) of funds: | | |
| Depreciation and amortization of equipment and leasehold improvements | **980,885** | 659,507 |
| Amortization of deferred charges | **389,653** | 434,174 |
| Amortization of financing expenses | **13,000** | 12,000 |
| Deferred income taxes | **(70,631)** | 216,678 |
| Share of net (earnings) loss of Consumers Distributing Company (National) Limited | **34,740** | (517,794) |
| Working capital provided from operations, exclusive of extraordinary gain | **1,492,119** | 2,709,398 |
| Working capital provided from disposition of partnership interest | **76,322** | — |
| | **1,568,441** | 2,709,398 |
| Financial resources were used for: | | |
| Deferred charges | **132,364** | 294,921 |
| Tax paid to create tax-paid undistributed surplus on hand | **23,592** | 90,635 |
| Dividends | **133,686** | 512,436 |
| Equipment and leasehold improvements | **677,911** | 3,083,955 |
| Other assets | **18,600** | 7,543 |
| | **986,153** | 3,989,490 |
| Increase (decrease) in working capital | **582,288** | (1,280,092) |
| Working capital, beginning of period | **7,838,306** | 9,118,398 |
| Working capital, end of period | **$8,420,594** | $7,838,306 |

See accompanying notes

## Auditors' Report

**To the Shareholders of
Consumers Distributing Company Limited**

We have examined the consolidated balance sheet of Consumers Distributing Company Limited and its subsidiaries as at January 31, 1976 and the consolidated statements of income and retained earnings and changes in financial position for the thirteen months then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 31, 1976 and the results of their operations and the changes in their financial position for the thirteen months then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
April 9, 1976

Laventhol & Horwath
Chartered Accountants

## Notes to Financial Statements
## January 31, 1976

### 1. Summary of significant accounting policies:

Principles of consolidation:

(a) The consolidated financial statements include the accounts of the company and its subsidiary companies, all of which are wholly-owned.

(b) The investment in 50% of the common shares of Consumers Distributing Company (National) Limited is carried at cost plus the company's equity in undistributed net earnings. The company's share of net earnings is included in the consolidated statement of income and retained earnings.

Condensed operating results of Consumers Distributing Company (National) Limited are as follows:

| | **Thirteen months ended January 31, 1976** | Twelve months ended December 31, 1974 |
|---|---|---|
| Sales | **$83,040,849** | $63,911,880 |
| Net earnings (loss) | **$ (69,480)** | $ 1,035,587 |
| Consumers Distributing Company (National) Limited share thereof (50%) | **$ (34,740)** | $ 517,794 |

Inventory:

Inventory is valued at the lower of cost and net realizable value; cost being determined on a first-in, first-out basis.

Equipment and leasehold improvements:

Equipment and leasehold improvements are recorded at cost. Depreciation is provided on a straight-line basis at rates which are designed to write off the assets over their estimated useful lives as follows:

Office, warehouse and showroom equipment—5% and 10%
Leasehold improvements—Term of lease
Automotive equipment—10% and 20%

Deferred charges:

Pre-opening costs relating to new branches are amortized over 24 months for established Metropolitan areas and over 36 months for other locations, commencing with the month after the date of opening.

Costs for development of new systems and procedures are amortized over varying periods, not exceeding 36 months.

Income taxes:

The company follows the tax allocation principle of providing for income taxes. Under this principle deferred income taxes result from claiming for income tax purposes capital cost allowances in excess of depreciation and amortization recorded in the accounts, and from writing off for income tax purposes financing expenses, deferred charges and other costs in the year incurred.

### 2. Change of fiscal year end:

The company changed its fiscal year end from December 31 to January 31, and accordingly these financial statements present the results of operations for the thirteen months ended January 31, 1976. The figures for the twelve months ended December 31, 1974 have been presented for purposes of comparison.

### 3. Due from The May Department Stores Company:

During the current period the company disposed of its partnership interest in Consumers Distributing Company (U.S.) to The May Department Stores Company for an amount of $1,060,000. As this amount is payable without interest in instalments over five years, it has been discounted for accounting purposes to $800,839, based upon an imputed interest rate of 10% per annum.

| | |
|---|---|
| Original amount receivable | $1,060,000 |
| Less received to date | 37,500 |
| | 1,022,500 |
| Less unamortized discount based upon imputed interest of 10% | 234,350 |
| | 788,150 |
| Less current portion | 160,336 |
| Non-current balance receivable | $ 627,814 |

### 4. Equipment and leasehold improvements:

| | Cost | Accumulated Depreciation and Amortization | Net |
|---|---|---|---|
| Office, warehouse and showroom equipment | $6,111,862 | $1,795,560 | $4,316,302 |
| Leasehold improvements | 2,036,621 | 673,017 | 1,363,604 |
| Automotive equipment | 1,676,048 | 465,008 | 1,211,040 |
| | $9,824,531 | $2,933,585 | $6,890,946 |

### 5. Other assets:

| | **January 31, 1976** | December 31, 1974 |
|---|---|---|
| Deferred charges: | | |
| Pre-opening costs relating to new branches | **$191,165** | $397,807 |
| Costs for development of new systems and procedures | **74,563** | 80,950 |
| Unamortized costs related to Consumers Distributing Company (U.S.) | — | 44,258 |
| | **265,728** | 523,015 |
| Financing expenses, less amounts amortized | **53,488** | 66,490 |
| Sundry | **248,004** | 229,404 |
| | **$567,220** | $818,909 |

Deferred charges amortized during the current period, and included in cost of sales and operating expenses on the consolidated statement of income and retained earnings amount to $389,653 (12 months ended December 31, 1974—$434,174).

**6. Bank indebtedness:**

The bank indebtedness is secured by a collateral floating charge on all the assets of the company. The company has also given the bank an assignment of book debts and assignments of life insurance policies in the face amount of $2,100,000, having a cash surrender value of $22,100.

**7. Stock options and reservation of shares:**

In connection with the company's Employee Stock Option Plan, 225,000 common shares have been reserved. At January 31, 1976 there were options outstanding to purchase 164,720 shares exercisable at prices ranging from $2.75 to $32.50 over the next ten years.

**8. Lease obligations:**

Property and equipment rental for the thirteen months ended January 31, 1976 amounted to $4,226,475.

Minimum rentals payable under long-term leases for property and equipment in effect as at January 31, 1976 (excluding insurance, property taxes and certain other occupancy charges) are as follows:

| | |
|---|---|
| 1977 | $ 3,898,395 |
| 1978-1982 | 19,231,105 |
| 1983-1987 | 14,454,727 |
| 1988-2000 | 23,502,220 |

**9. Contingent liability:**

The company is jointly and severally liable with The Oshawa Group Limited as guarantor of the leases of Consumers Distributing Company (National) Limited. The annual minimum rentals payable by Consumers Distributing Company (National) Limited under long-term leases in effect as at January 31, 1976 are as follows:

| | |
|---|---|
| 1977 | $ 2,328,442 |
| 1978-1982 | 11,431,206 |
| 1983-1987 | 10,642,740 |
| 1988-2000 | 19,703,758 |

**10. Remuneration of directors and senior officers:**

The aggregate direct remuneration paid by the company and its consolidated subsidiaries to directors and senior officers of the company for the thirteen months ended January 31, 1976 was $616,657 (12 months ended December 31, 1974—$511,585).

**11. Commitment:**

The company is committed to expend approximately $2,000,000 for automated sales devices for its stores and the stores of Consumers Distributing Company (National) Limited in the 1977 fiscal year. Negotiations are currently under way to arrange suitable lease financing for this purchase of equipment.

**12. Anti-Inflation legislation:**

Under the federal government's anti-inflation programme, which became effective October 14, 1975, the company is subject to controls on prices, profits, compensation and dividends.

## 159 Catalogue Showrooms in nine Canadian Provinces

**Alberta** (15)
Calgary (7)
Edmonton (7)**
Lethbridge

**Manitoba** (9)
Winnipeg (8)
Brandon

**New Brunswick** (5)
Fredericton
Moncton (2)
Saint John (2)

**Newfoundland** (1)
St. John's

**Nova Scotia** (2)
Dartmouth
Halifax

**Prince Edward Island** (1)
Charlottetown

**Quebec** (38)
Montreal (20)
Charlesbourg*
Chateauguay
Chicoutimi
Drummondville
Granby
Hull
Jonquiere
Levis
Quebec City (4)
Rosemere
St. Hyacinthe
St. Jean
Sherbrooke
Trois-Rivieres
Valleyfield

**Saskatchewan** (5)
Regina (2)
Moose Jaw
Prince Albert
Saskatoon

**Ontario** (83)
Toronto (18)
Ajax
Barrie
Belleville
Bramalea
Brampton
Brantford
Brockville
Burlington (2)
Cambridge
Chatham
Cornwall
Georgetown
Guelph (2)*
Hamilton (6)*
Kingston
Kitchener
London (6)
Mississauga (2)
Niagara Falls
North Bay
Oakville
Orangeville
Orillia
Oshawa (2)
Ottawa (6)
Owen Sound
Peterborough
Pickering
Richmond Hill
St. Catharines (2)
St. Thomas
Sarnia
Sault Ste. Marie
Stratford
Streetsville
Sudbury (2)
Thunder Bay
Waterloo
Welland
Whitby
Windsor (3)
Woodstock

*Stores Opened to date in 1976

**Consumers Distributing Company Limited**
62 BELFIELD ROAD, REXDALE (TORONTO)
ONTARIO M9W 1G2